

## Message Text

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ACTION AF-08

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FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 5774

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E.O. 11652 : NA

TAGS : ECON, EINV, NI

SUBJ : INDIGENIZATION WHITE PAPER RELEASED

REF : LAGOS 7571

1. FEDERAL MILITARY GOVERNMENT'S VIEW ON THE REPORT OF THE INDUSTRIAL ENTERPRISES PANEL HAS BEEN RELEASED AND IS BEING AIRPOUCHED TO DEPT. CONTENT WHITE PAPER IS ELABORATION OF CHIEF OF STATE'S SPEECH OF JUNE 29, AND REVEALS SOME DIFFERENCES BETWEEN PANEL'S RECOMMENDATIONS AND FMG ADOPTION. MOST SIGNIFICANT DIFFERENCE IS REJECTION OF PROPOSAL THAT MINIMUM NIGERIAN OWNERSHIP OF FIRM BE 49 PERCENT; FMG DECIDED THAT 40 PERCENT WAS ADEQUATE IN CERTAIN CATEGORIES.

2. FMG HAS ACCEPTED FOLLOWING CHANGES IN THE NEW INDIGENIZATION SCHEDULES:

A. NEW SCHEDULE I (100 PERCENT NIGERIAN OWNERSHIP)-ADDITIONS TO EXISTING SCHEDULE I ARE:

1. COSMETICS AND PERFUMERY MANUFACTURE

2. SUPERMARKETS AND DEPARTMENTAL STORES HAVING A TURNOVER

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OF LESS THAN 2 MILLION NAIRA PER ANNUM.

3. DISTRIBUTION AGENCIES EXCLUDING MOTOR VEHICLES, MACHINERY AND EQUIPMENT AND SPARE PARTS.
4. ESTATE AGENCY
5. FURNITURE MAKING
6. MANUFACTURE OF SUITCASES, BRIEFCASES, HAND-BAGS, PURSES, WALLETS, PORTFOLIOS AND SHOPPING BAGS.
7. PASSENGER BUT SERVICES OF ANY KIND
8. POULTRY FARMING
9. PRINTING OF STATIONERY (WHEN NOT ASSOCIATED WITH PRINTING OF BOOKS)
10. SLAUGHTERING, STORAGE, DISTRIBUTION AND PROCESSING OF MEAT
11. TRAVEL AGENCIES
12. WHOLESALE DISTRIBUTION(OF LOCAL MANUFACTURES AND OTHER LOCALLY PRODUCED GOODS)
13. COMMERCIAL TRANSPORTATION(WET AND DRY CARGO AND FUEL)
14. FILM DISTRIBUTION(INCLUDING CINEMA FILMS)
15. MANUFACTURERS REPRESENTATIVES
16. INDENTING
17. COMMISSION AGENTS

B) NEW SCHEDULE II (60 PERCENT NIGERIAN OWNERSHIP)-ADDITIONS TO EXISTING SCHEDULE II.

1. SUPERMARKETS AND DEPARTMENTAL STORES HAVING A TURNOVER OF MORE THAN 2 MILLION NAIRA PER ANNUM
  2. BANKING-CMMERCIAL MERCHANT AND DEVELOPMENT BANKING
  3. INSURANCE-ALL CLASSES
  4. MINING AND QUARRYING
  5. BASIC IRON AND STEEL MANUFACTURE
  6. CEMENT MANUFACTURE
  7. PETRO-CHEMICAL FEED-STOCK INDUSTRIES
  8. FERTILIZER PRODUCTION
  9. PULP AND PAPER MILLS
  10. PLANTATION SUGAR AND PROCESSING
  11. SALT REFINERY AND PACKAGING
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12. CONSTRUCTION INDUSTRY
13. PLANTATION AGRICULTURE FOR TREE CROPS, GRAINS AND OTHER CASH CROPS
14. TEXTILE MANUFACTURING INDUSTRIES
15. INTERNAL AIR TRANSPORT(SCHEDULE AND CHARTER SERVICES)
16. OIL MILLING AND CRUSHING INDUSTRIES
17. DISTRIBUTION AND SERVICING OF MOTOR VEHICLES, MACHINERY AND EQUIPMENT, TRACTORS AND SPARE PARTS THEREOF.

- 18. LIGHTERAGE
- 19. WHOLESALE DISTRIBUTION OF IMPORTED GOODS

C) NEW SCHEDULE III (40 PERCENT NIGERIAN OWNERSHIP)-ALL ENTERPRISES NOT INCLUDED IN SCHEDULES I OR II.

3. EXEMPTIONS FROM INDIGENIZATION-ALTHOUGH THE PANEL RECOMMENDED REVIEW OF ALL EXEMPTIONS GRANTED UNDER FIRST PHASE OF INDIGENIZATION, FMG HAS DECIDED TO INVESTIGATE ONLY THOSE WHERE QTE THE GOVERNMENT WAS MISDIRECTED INTO GRANTING ANY EXEMPTIONS UNQTE. NEVERTHELESS, QTE NO EXEMPTIONS ARE ENVISIONED IN THE SECOND PHASE OF THE INDIGENIZATION PROGRAM UNQTE.

4. REVIEW OF CERTIFICATES OF COMPLIANCE-FIRMS WHICH RECEIVED CERTIFICATES OF COMPLIANCE DURING THE FIRST INDIGENIZATION PHASE (40 PERCENTAGE NIGERIAN OWNERSHIP) WILL BE INVESTIGATED BY FMG FOR EVIDENCE QTE FRONTING UNQTE, I.E., NO OR ONLY NOMINAL PAYMENT FOR PERCENTAGE OF EQUITY OR WHERE BASIS OF PAYMENT IS FROM FUTURE DIVIDEND.

FIRMS GUILTY OF FRONTING MAY BE SUBJECT TO SEIZURE.

COMMENT: MANY EXPATRIATE, INCLUDING AMERICAN, FIRMS ARE CONCERNED OVER PROVISION.

SEVERAL AMERICAN COMPANIES ARRANGED EQUITY TRANSFERS VIA FUTURE DIVIDEND PAYMENT METHOD. CLAIM THAT THIS WAS APPROVED BY NIGERIAN ENTERPRISE PROMOTION BOARD(NEPD) AT TIME OF TRANSFER. COMPANIES SO FAR UNABLE TO GET CLEAR READING FROM WORKING LEVEL FMG OFFICIALS ON IMPACT OF NEW RULING.

5. BREAKUP OF CONGLOMERATES-EXPATRIATE CONTROLLED CONGLOMERATE GROUPINGS WILL BE REVIEWED. CONSTITUENT ELEMENTS OF GROUPS FALLING UNDER DIFFERENT SCHEDULES WILL BE DIVORCED FROM PARENT COMPANY AND RUN INDEPENDENTLY. GROUPS SPECIFICALLY CITED BY WHITE PAPER ARE UAC OF NIGERIA LTD., BEWAC, JOHN HOLT, AND LEVENTIS. THE FIRST UNCLASSIFIED

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3 ARE MAINLY BRITISH OWNED, WHILE THE FOURTH IS CYPRIOT COMPANY.

6. INDIGENIZATION OF MANAGEMENT-ALTHOUGH PANEL RECOMMENDED THAT CHIEF EXECUTIVE POSITION OF ALL COMPANIES SHOULD BE QTE NIGERIANIZED UNQTE BY MARCH 31, 1979, FMG CONCEDED THAT THE GOAL WAS UNREALISTIC GIVEN SHORTAGE OF EXPERIENCED NIGERIAN MANAGEMENT PERSONNEL. NEVERTHELESS, THE COMMISSIONER FOR INTERNAL AFFAIRS SHINKAFI ON JULY 6 SAID THAT QTE ANY INDIGENIZATION OF ANY INDUSTRY WHICH IS NOT MATCHED WITH EQUAL INDIGENIZATION OF THE MANAGEMENT WOULD BE MEANINGLESS UNQTE. COMMENT: DESPITE THE APPARENT CONTRADICTION BETWEEN THE WHITE PAPER AND SHINKAFI'S REMARKS, CLEAR THAT FMG WILL INCREASE PRESSURE ON FIRMS TO "NIGERIANIZE" MANAGEMENT. POSSIBLE OUTCOME IS ACCELERATED HIRING OF EXPATRIATES AS MANAGEMENT CONSULTANTS TO ASSIST INEXPERIENCED LOCAL EXECUTIVES. CROSBY

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